



# **Judicial Council of California**

## **Administrative Office of the Courts**

Trial Court Financial Policies and Procedures

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# **FUND ACCOUNTING**

**POLICY NUMBER: AOC FIN 3.01**

**Original Release**

**April 2001**

Originator:

**Administrative Office of the Courts**

Effective Date:

July 1, 2006

Revision Date:

July 20, 2005



# Fund Accounting

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## 2.0 Purpose

The purpose of this policy is to establish uniform guidelines by which the trial court establishes “funds” and maintains accountability over the public resources used to finance its operations.

## 3.0 Policy Statement

As a publicly funded entity, the trial court must ensure that the funds allocated to it by the state and other sources are used efficiently. The court shall establish and maintain separate funds to segregate its financial resources and allow for the detailed accounting and accurate reporting of the court’s financial operations.

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## 4.0 Application

This procedure applies to all trial court employees and officials who are responsible for or participate in the financial operation of the court, the accounting for court revenues and expenses, and the collection and disbursement of court funds.

## 5.0 Definitions

The terms defined below apply to this policy and are for the express purpose of interpreting this policy.

1. **Agency Fund.** A fund normally used to account for assets held by a government as an agent for individuals, private organizations or other governments and/or other funds.
2. **Capital Projects Fund.** A fund created to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).
3. **Debt Service Fund.** A fund established to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
4. **Enterprise Fund.** A fund established to account for operations financed and operated in a manner similar to private business enterprises.
5. **Fiduciary.** To act for another party's benefit while subordinating one's individual interests is to act in a fiduciary capacity.
6. **Fiduciary Fund.** The trust and agency funds used to account for assets held by a government unit in a trustee capacity or as an agent for others.

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7. **Fund.** A fiscal and accounting entity with a self-balancing set of accounts. A fund is established to record cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. A fund allows for the segregation of financial activities for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.
8. **General Fund.** The fund used to account for all financial resources except those specifically required to be accounted for in other funds.
9. **Government Accounting Standards Board (GASB).** The authoritative accounting and financial reporting standard-setting body for government entities.
10. **Governmental Fund.** Funds used to account for the acquisition, use and balances of expendable financial resources and the related current liabilities – except those accounted for in proprietary funds and fiduciary funds.
11. **Internal Service Fund.** A fund used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.
12. **Proprietary Fund.** Funds used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector (i.e., enterprise and internal service funds).
13. **Special Revenue Fund.** A fund used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

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14. **Trust Fund.** A fund used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments and/or other funds.

## 6.0 Text

### 6.1 Funds and Fund Types

1. It is a common practice for state and local governments and public agencies to account for their financial resources and report the results of their operations through the use of fund accounting. A “fund” is a complete set of accounting records designed to segregate various financial resources and maintain separate accountability for resources designated for specific uses. The establishment of discrete funds is beneficial in ensuring that public monies are only spent for approved and legitimate purposes.
2. State and local governments can establish as many funds as required to operate efficiently and account for resources accurately. However, all funds used must be classified into one of the seven types shown in the table that appears on the following page.
3. Section 1300, GASB Codification, states that a government unit should keep **the least number of funds** possible to satisfy its particular circumstances.
4. The GASB number of funds principle states: *“Government units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.”*

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### Classifications of Fund Types Available to Government Agencies

Classification	Fund Type	Purpose	Commonly Used by the Trial Court?
Governmental Funds	General fund	To account for all financial resources except those <b>required</b> to be accounted for in a <b>separate</b> fund.	Yes, to account for all funds received by the court except those that must be accounted for separately
	Special revenue fund	To account for certain revenue sources “earmarked” for specific purposes.	Yes, to account for federal, state, local and private grants
	Debt service fund	To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.	No
	Capital projects fund	To account for financial resources used in the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds.	No
Proprietary Funds	Enterprise fund	To account for operations that are financed and operated in a manner similar to private business enterprises.	No
	Internal service fund	To account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units on a cost - reimbursement basis.	No
Fiduciary Funds	Trust or Agency fund	To account for resources received by one government unit on behalf of a secondary governmental or other unit.	Yes, to account for fines, fees, etc. collected by the court on behalf of others

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## 6.2 Trial Court Operations Fund

1. The Trial Court Operations Fund is used to account for the financial activities associated with the moneys appropriated in the Budget Act and allocated to the court by the AOC.
2. Government Code Section 77009 requires the county to establish a Trial Court Operations Fund in the county treasury. Alternatively, GC 77009 (j) provides that the Judicial Council may establish Trial Court Operations Funds outside of the county treasury and may require the trial court to include any or all of the money under its control in the separate fund.
3. The Trial Court Operations Fund is established by the county as an agency fund<sup>1</sup> type under the Fiduciary Funds classification. However, for the trial court's purposes, the Trial Court Operations Fund is treated as a general fund type under the Governmental Funds classification.
4. All state funding, whether out of the Trial Court Trust Fund, Judicial Administration Efficiency and Modernization Fund or Trial Court Improvement Fund shall be recorded in the Trial Court Operations Fund.
5. An accounting structure including elements such as Programs, Organizations, Object and Sub-Object accounts, and revenue sources should be established to allow the court to account separately for various court programs and activities.
6. Money from the Trial Court Operations Fund may only be used for trial court operations as defined in GC 77003 and 77006.5, and for services purchased by the court as set forth in GC 77212 (b) and (c).

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<sup>1</sup> Government Code 77009 (a).

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7. The Presiding Judge or his or her written designee shall authorize and direct expenditures from the Trial Court Operations Fund. County approval is not required for expenditures from the account.
8. The Trial Court Operations Fund along with all other applicable funds shall be used to report the court's financial activities in the Quarterly Financial Statements (QFS) and Comprehensive Annual Financial Report (CAFR) information provided to the state.

### **6.3 Special Revenue Funds**

Trial court operations may include activities that are funded by federal, state, local governmental or private grants. Most grants specifically define the purposes for which grant funds may be used. In many cases, the grants are reimbursement type agreements that require the court to document its costs to receive payment. These are generally defined as expense-driven grants.

- a. The county should establish and maintain Special Revenue Funds to specifically account for revenues and expenditures related to grant activities.
- b. Revenues and expenditures under these funds shall not be commingled with the Trial Court Operations Fund. However, grants and other revenues and expenditures in the Trial Court Operations Fund may have a separate accounting designation for tracking purposes. Financial systems operated by the AOC or the trial court independently must be capable of establishing and maintaining Special Revenue Funds to specifically account for revenues and expenditures related to grant activities.
- c. The trial court Special Revenue Funds shall be reported with the Trial Court Operations Fund in the Quarterly Financial Statements (QFS) and Comprehensive Annual Financial Report (CAFR) information provided to the state.



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- d. Additional information regarding grant accounting is provided in Procedure No. FIN 5.04, Grant Accounting and Administration.

## 6.4 Agency Funds

Trial court operations may include activities that the court conducts on behalf of other government entities such as the county. Examples of these activities are the collection and holding of bail bond money, permit deposits, fines, fee assessments, etc. In instances where the court is holding money in a fiduciary capacity for another entity:

- a. The county shall establish and maintain Agency Funds to account for court activities conducted on behalf of other governmental units.
- b. The trial court shall report these activities as balance sheet items in the CAFR.

## 7.0 Associated Documents

**None**